DOCUMENT RESUME

ED 451 803 HE 033 933

TITLE	Report of the MLA Post-Secondary Funding Review Committee.
INSTITUTION	Alberta Learning, Edmonton.
ISBN	ISBN-0-7785-1280-0
PUB DATE	2000-10-05
NOTE	41p.; Produced by Alberta Learning, Adult Learning Division.
AVAILABLE FROM	Adult Learning Division, Alberta Learning, 11th Floor, Commerce Place, 10155-102 Street, Edmonton, Alberta T5J 4L5. Tel: 780-427-5603; Fax: 780-422-3688. For full text: www.learning.gov.ab.ca.
PUB TYPE	Reports - Evaluative (142)
EDRS PRICE	MF01/FC02 Plus Postage.
DESCRIPTORS	Access to Education; Accountability; *Educational Finance; *Equal Education; Foreign Countries; *Postsecondary Education; *Public Colleges; *Resource Allocation
IDENTIFIERS	*Alberta

ABSTRACT

This report brings to an end a series of consultations that began in March 2000 when Alberta's Minister of Learning established a committee to review the approach to allocating resources to publicly funded postsecondary institutions in Alberta, Canada. The Minister asked the committee, mostly composed of Members of the Legislative Assembly (MLAs), to ensure that the funding mechanism maximized accessibility to high quality, responsive, and affordable learning opportunities while maintaining institutional accountability. The five-member committee consulted with postsecondary institutions, faculty, and student associations, government departments, and other stakeholders in order to make recommendations on a funding framework for Alberta's postsecondary institutions. The committee developed 10 recommendations: (1) base operations should be adjusted to achieve greater equity across the system; (2) a process should be established to provide for the periodic review of base operations grants; (3) general cost pressures should be considered in annual adjustments to the base operations grant; (4) a working group should be established to examine and make recommendations on improving the ability of Alberta's postsecondary institutions to attract and retain faculty; (5) the Access Fund should be modified to fund general as well as targeted enrollment increases; (6) allocations from the "Performance Envelope" should be based strictly on the achievement of excellence and improvements in performance; (7) the indirect costs of research should be funded; (8) funding processes among government departments should be coordinated and simplified when possible; (9) the tuition fee policy should be revised to ensure that it continues to support the goals of the postsecondary system; and (10) concerns with the approach toward funding apprenticeship and industry training should be further investigated. Six appendixes contain materials used by the Committee, including the consultation questions and tables of grants awarded postsecondary institutions. (SLD)

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Report of the

MLA Post-secondary Funding Review Committee

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This report is available on the Internet at www.learning.gov.ab.ca
under Publications and Statistics.

ISBN 0-7785-1280-0

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Rob Renner, M.L.A.
Medicine Hat Constituency

October 5, 2000

Honourable Dr. Lyle Oberg
Minister of Learning
227 Legislature Building
Edmonton, Alberta
T5K 2B6

Dear Dr. Oberg:

On behalf of the MLA Post-secondary Funding Review Committee, I am pleased to submit to you our report and recommendations on issues related to the funding of post-secondary education in Alberta. This report completes the Committee's work in reviewing the province's approach to allocating resources to publicly-funded post-secondary institutions.

Based on extensive consultation with stakeholders, the Committee concluded that, on the whole, the current framework of base operations grants combined with targeted funding envelopes works well to balance the needs of post-secondary institutions with the goals of the system, however, certain aspects need to be improved. Through our review, we identified a number of issues, including equity, differentiation, predictability, adaptability, and complexity, as well as the importance of improving the competitive position of Alberta's post-secondary system. Taken together, our recommendations provide a comprehensive response to those issues.

Our proposals would result in greater sensitivity to the diversity of the post-secondary system and the dynamics of the post-secondary environment and, at the same time, would continue to support system-wide goals and the guiding principles. Our proposals also would provide an opportunity for the province to increase its competitive advantage and ensure a leading role in post-secondary education policy in Canada. By providing Albertans with the ideas, skills, and knowledge that they need to succeed, the post-secondary system plays a vital role in the prosperity of our province and the well-being of Albertans. Ultimately, our proposals are aimed at ensuring that post-secondary learning opportunities continue to be accessible, responsive and affordable, and provide Albertans with the globally recognized skills needed to keep our province strong.

On behalf of the Committee, I would like to thank you for the opportunity to renew Alberta's post-secondary education funding framework.

Sincerely,

Rob Renner

Rob Renner, MLA
Medicine Hat
Chair, Post-secondary Funding Review Committee

Contents

Executive Summary 1

Overview of the MLA Post-secondary Funding Review 4
- The Committee 4
- The Process 4

Current Approach to Funding 5
- Overview 5
- Base Operations Grants 6
- Funding Envelopes 6
- Tuition Fee Policy 7
- Community Consortia 8
- Apprenticeship and Industry Training 8
- Private University Colleges 9
- Other Private Providers 9

What We Heard 10
- Key Themes 10
- Additional Issues 13

Committee Recommendations 14
- Guiding Principles 14
- A Renewed Funding Framework 15
  - *Recommendation 1 — Equity Adjustments to Base Grants* 15
  - *Recommendation 2 — Regular Review of Base Grants* 18
  - *Recommendation 3 — Cost Adjustments to Base Grants* 18
  - *Recommendation 4 — Faculty Attraction and Retention* 19
  - *Recommendation 5 — Access Fund* 20
  - *Recommendation 6 — Performance Envelope* 21
  - *Recommendation 7 — Research Funding* 22
  - *Recommendation 8 — Government Processes* 23
  - *Recommendation 9 — Tuition Fee Policy* 23
  - *Recommendation 10 — Apprenticeship and Industry Training* 24

Concluding Comments 25

Appendix 1: Letter Inviting Stakeholder Input 26

Appendix 2: Consultation Questions 29

Appendix 3: Current Funding Framework Principles 30

Appendix 4: Comparison of Institution Program Costs and Grant Funding 31

Appendix 5: Full-Load Equivalent (FLE) Enrolment by Institution 1994-1995 to 1998-1999 34

Appendix 6: Ongoing Grants to Post-secondary Institutions 1994-1995 to 1998-1999 35

Executive Summary

This report culminates a series of consultations that began in March 2000, when the Minister of Learning established a committee to review the approach to allocating resources to publicly funded post-secondary institutions. The Minister asked the committee to ensure that the funding mechanism maximized accessibility to high quality, responsive and affordable learning opportunities while maintaining institutional accountability.

The committee's work was to focus on potential methods of distributing existing resources rather than adequacy of funding to the system. Any proposed changes in the method of funding were to be accommodated within the government's existing post-secondary budget. No institutions were to lose existing resources, however, new funding to the system could be allocated differently. Recommendations were to be made by the fall of 2000.

The committee members were Medicine Hat MLA Rob Renner, Chair; Wetaskiwin-Camrose MLA LeRoy Johnson; Calgary-Glenmore MLA Ron Stevens; former Students Finance Board Chair Fred Clarke; and Kjersti Powell, former board chair of Keyano College.

The committee consulted with post-secondary institutions, faculty and student associations, government departments, and other stakeholders in order to make recommendations on a funding framework for Alberta's post-secondary institutions. The knowledge and advice received throughout the consultation process guided the committee in developing a set of core principles and recommendations for a renewed funding framework.

The committee recommends that:

Recommendation 1 — Equity Adjustments to Base Grants

Base operations grants should be adjusted to achieve greater equity across the system.

- First priority on new funding to the system should be to address variations in per student grants and expenditures between similar institutions and programs, as well as enrolment growth in credit programs that has not been directly funded by government or third parties.
- Unfunded enrolment growth in arts and science degree programs and university-level transfer programs at the four publicly-funded private university colleges also should be funded at 75% of the per FLE amount provided to public universities.

Recommendation 2 — Regular Review of Base Grants

A process should be established to provide for the periodic review of base operations grants.

- A review should be conducted approximately every five years.

Recommendation 3 — Cost Adjustments to Base Grants

General cost pressures should be considered in annual adjustments to the base operations grant.

- A distinct mechanism should be established to help fund general cost pressures, with the amounts determined during the government's annual budget and business planning process.

Recommendation 4 — Faculty Attraction and Retention

A working group should be established to examine and make recommendations on improving the ability of Alberta's post-secondary institutions to attract and retain faculty.

- To remain competitive the post-secondary system should have top-quality faculty, outstanding graduate students, and talented researchers.

Recommendation 5 — Access Fund

The Access Fund should be modified to fund general as well as targeted enrolment increases.

- The allocation of funding for both general and targeted enrolment increases should be tied to institutional accessibility plans that reflect provincial and local market needs.
- Consideration should be given to establishing a mechanism for responding to immediate local needs.
- Accountability for enrolment increases and decreases should be strengthened.

Recommendation 6 — Performance Envelope

Allocations from the Performance Envelope should be based strictly on the achievement of excellence and improvements in performance.

- Provided that a mechanism exists within the base operations grant to fund enrolment changes and general cost pressures, annual performance awards should be allocated as one-time funding.
- The introduction of mandate-specific indicators, external benchmarks, and third-party performance assessment should also be considered.

Recommendation 7 — Research Funding

The indirect costs of research should be funded.

- Alberta should ensure that provincially-sponsored research is fully funded, including both direct and indirect costs.
- Additionally, the province should work with the federal government to obtain funding for the indirect costs of federally-sponsored research.

Recommendation 8 — Government Processes

Funding processes among government departments should be co-ordinated and simplified where possible.

- Responsibility for system-wide planning and co-ordination in specific areas should be clarified, and avenues of communication with institutions should be streamlined.

Recommendation 9 — Tuition Fee Policy

The tuition fee policy should be revised to ensure that it continues to support the goals of the post-secondary system.

- Revisions should support the goals of affordability and accessibility, and consider the needs of institutions as well as students.
- Revisions also should be made within the context of the government's general accessibility strategy and be integrated with student finance programs.

Recommendation 10 — Apprenticeship and Industry Training

Concerns with the approach toward funding Apprenticeship and Industry Training should be further investigated.

- The current method of funding apprenticeship programs should be reviewed through a focussed discussion with institutions providing apprenticeship training.

Overview of the MLA Post-secondary Funding Review

The Committee

This report culminates a series of consultations that began in March 2000, when the Minister of Learning established a committee to review the approach to allocating resources to publicly-funded post-secondary institutions. The Minister asked the committee to ensure that the funding mechanism maximizes accessibility to high quality, responsive and affordable learning opportunities while maintaining institutional accountability.

The committee's work was to focus on potential methods of distributing existing resources rather than adequacy of funding to the system. Any proposed changes in the method of funding were to be accommodated within the government's existing post-secondary budget. No institutions were to lose existing resources, however, new funding to the system could be allocated differently. Recommendations were to be made by the fall of 2000.

The committee members were Medicine Hat MLA Rob Renner, Chair; Wetaskiwin-Camrose MLA LeRoy Johnson; Calgary-Glenmore MLA Ron Stevens; former Students Finance Board Chair Fred Clarke; and Kjersti Powell, former board chair of Keyano College.

The Process

The committee consulted with post-secondary institutions, faculty and student associations, government departments, and other stakeholders in order to make recommendations on funding mechanisms for Alberta's post-secondary institutions.

The committee began the review in May by asking stakeholders for written submissions. The letter inviting this input is contained in Appendix 1. Overall, seventy-three submissions were received. In addition, in June, the committee heard presentations from umbrella organizations, such as the Council of Presidents of Public Colleges and Technical Institutes, publicly-funded private university colleges, the Universities Co-ordinating Council, the Alberta College and Technical Institute Students' Executive Council, and the Council of Alberta University Students.

Based on the written submissions and feedback received from umbrella organizations, a document was prepared to help focus a one-day round table discussion with stakeholders held on August 24th. The document included a "What We Heard" section as well as key questions to guide the round table discussion. These key questions are included in Appendix 2.

The intent of the round table discussion was to obtain additional thoughts and information for consideration by the committee, rather than to develop a consensus on specific solutions to the issues raised. In particular, the round table focussed on the advantages and disadvantages of various funding options suggested by stakeholders in the written submissions and presentations.

This report reflects feedback received throughout the entire consultation process and the committee's recommended responses to the ideas and issues raised.

Current Approach to Funding

Overview

The Alberta government provides funding to 26 post-secondary institutions in the province: four universities, two technical institutes, 15 public colleges, four private university colleges, and the Banff Centre for Continuing Education. Alberta Learning provides operating funds to support the delivery of credit programs. Institutions also provide other services and generate revenue from tuition and other student fees, non-credit and off-campus credit programs, the operation of ancillary services, sponsored research funding from provincial and federal agencies and private industry, as well as investments and donations. Other ministries provide grant support for infrastructure, research and other specific projects related to the mandates of the various institutions.

For the 2000-2001 fiscal year, the province has budgeted close to $1 billion in funding to post-secondary institutions.

The current mechanism of government funding consists of base operations grants provided by Alberta Learning, and targeted funding "envelopes" provided by the ministries of Learning, Infrastructure, and Innovation and Science.

This mechanism was introduced in 1994-1995. Prior to that time, institutions received a base operations grant plus supplemental funding for enrolment and a separate capital renewal grant. Under this earlier mechanism, each institution's operating grant was adjusted annually to compensate for cost pressures. Funding from the Supplementary Enrolment Fund was provided on the basis of marginal increases in enrolment over the 1981-1982 year, which was the year the Fund was introduced. An incremental amount was provided for each additional full-time equivalent student. This funding was capped in 1991-1992. The capital grant was based on a formula that took into account facility areas, the replacement value of each institution's assets, and useful life cycles in various asset categories. In 1990-1991, this formula was discontinued and each institution's grant was continued at the 1986-1987 level.

In 1993-1994, the government rolled capital renewal funding into the operating grants. As part of the government's financial restructuring program, this combined grant, which is today's base operations grant, was reduced by 21% over a three-year period beginning in 1994-1995. At the same time, the performance-driven envelopes were introduced to channel new funds toward specific purposes.

The current funding mechanism does not explicitly provide for general cost pressures and enrolment increases in non-targeted programs. An institution's ability to respond to these pressures depends on its ability to access revenue through tuition and related fees, the Performance Envelope, and the Access Fund. However, a number of institutions are nearing the cap for tuition fee revenue, which has allowed for a 2.5% annual increase in total system revenue. The Performance Envelope rewards performance and represents just under 2% of total system revenue. The Access Fund accommodates enrolment expansion in priority areas and new allocations have represented between 1% and 2% of funding to the system.

The current base operations grants and envelope funds are described in greater detail below.

Base Operations Grants

Base operations grants provide a stable base of primarily unconditional funding to post-secondary institutions. The grants are used to fund program delivery, administration, and other general operating costs. In 1999-2000, $800 million was allocated through base operations grants, and this was increased to $819 million in 2000-2001. Base operations grants account for approximately 85% of the province's grants to institutions.

Funding Envelopes

Funding envelopes are used to assist and act as incentives for post-secondary institutions to make changes in support of government and system-wide goals. Accountability is a key aspect of the envelopes, including performance and accountability reporting. Allocations from each funding envelope are based on criteria specific to that envelope. For 2000-2001, the envelopes will provide $163.4 million to the post-secondary system. These envelopes include:

Access Fund ($69.8 million available in 2000-2001) — This fund is provided by the Ministry of Learning and aims to increase learners' access to relevant learning opportunities. Institutions submit program proposals indicating how they will expand access to credit programs in priority subject areas that respond to student and labour market demand, as well as government priorities. Funding is now granted on a per full-load equivalent (FLE) student basis for program delivery and facility operations. One FLE represents one student for a standard year of study taking what is considered to be a full load in a specific program. Per student funding of a particular program is the same regardless of the institution delivering the program. These grants are added to the base operations grant once enrolment and funding have stabilized. One-time funding may also be provided to support institutional purchases of equipment, construction or renovation of facilities, and/or curriculum development.

Performance Envelope ($25.1 million available in 2000-2001) — Provided by the Ministry of Learning, this envelope aims to reward institutional performance. The envelope has two components, a system award and a progress award. These awards are added to an institution's base operations grant in the next fiscal year. Since 1997, the system award has been approximately 1% of the total of an institution's general operations grant combined with all conditional program grants. For 2000-2001, the progress award is about 2% of combined government grants. The progress award is based on a set of Key Performance Indicators (KPIs) that are used to assess and reward the progress an institution is making toward meeting system-wide goals. KPIs include enrolment, graduate employment rate, graduate satisfaction, administration expenditures, and enterprise revenue. For the 3 campus-based universities, there are also four research performance indicators.

Infrastructure Renewal Envelope ($35 million available in 2000-2001) — Provided by the Ministry of Infrastructure since 2000-2001, this envelope is intended to provide for deferred and ongoing capital maintenance requirements. Annual grants are allocated to institutions based on a formula that was developed in consultation with institutions. Under the formula, half of the grant is based on area,

and the other half is based on area modified for condition as measured by a 1997 study. Currently, Infrastructure is working with Learning, Innovation and Science, and institutions to verify institutional areas and update the 1997 condition study to reflect facility upgrades and renovations.

Research Excellence Envelope ($3.5 million available in 2000-2001) — This envelope, which has been administered by the Ministry of Innovation and Science since 1999-2000, aims to reward and foster research excellence at public universities. Allocations are made using a weighted formula that reflects each university's success in gaining national granting council awards, and the ratio of these awards to government operating grants.

Innovation and Science Research Investments Program (ISRIP) ($30 million available in 2000-2001) — Provided by the Ministry of Innovation and Science, this program aims to support selected science and research initiatives of strategic importance to Alberta. It combines the former Intellectual Infrastructure Partnership Program (IIPP) and the Science and Research Fund into a single program with three distinct streams. The Research Infrastructure stream is restricted to Alberta universities and research hospitals. However, all public post-secondary institutions are eligible for the Science Awareness and Promotion stream, and public post-secondary institutions as well as private university colleges are eligible for the Enabling Research Application and Technology Transfer stream.

Tuition Fee Policy

The Tuition Fee Policy is guided by the principle that the funding of post-secondary education is a responsibility shared by students, their families, and society. Students make a direct financial contribution to the costs of their education through the payment of tuition fees. These fees are regulated by the government through the Tuition Fee Policy.

Introduced in 1990-1991 and amended in 1994-1995, the objective of the Tuition Fee Policy is to ensure that students make a contribution to the costs of their post-secondary education that is reasonable considering the benefits they receive. Extensive public consultations were conducted in 1990 and 1994 to determine what Albertans considered a reasonable contribution on the part of students. Based on the results of these consultations, it was determined that students should contribute up to 30% of the cost of their education.

Under the amended Tuition Fee Policy, the revenue from tuition fees at public institutions was allowed to rise to 30% of net operating expenditures no sooner than the year 2000. The government has honoured a commitment made to student leaders to entrench in legislation the 30% tuition fee ceiling.

The policy applies to total net operating expenditure and total credit-related tuition revenue. Credit-related tuition revenue includes fees for credit instruction and any universal or flat-rate charges for credit instruction, such as applied lab, materials, or computer fees. Each institution is able to increase tuition fees for individual programs and recover a greater portion of net operating expenditure, so long as it does not breach the tuition policy relative to the institution as a whole.

Additionally, the government limits annual average tuition fee increases to changes in the Alberta consumer price index, with the allowable average increase of $215.50 established in 1994-95 being the base year.

Since the inception of the amended Tuition Fee Policy, increases in tuition fees have added about 2.5% annually to total system revenues.

Community Consortia

Established in 1980, Alberta's four Community Consortia make available programs and services provided by public post-secondary institutions to adults who live in regions not directly served by an institution. Community Consortia are partnerships of public post-secondary institutions and communities who work cooperatively to deliver these programs and services.

Annual operating grants are provided to the Consortia through Alberta Learning's Community Consortium Program Grant. Each Consortium receives a portion of the overall grant to support their program, capital, and administrative needs. Community Consortia also may receive funding from other Alberta Learning programs as well as other ministries, governments, and agencies.

Apprenticeship and Industry Training

Alberta Apprenticeship and Industry Training is a system that combines on-the-job training with formal instruction at a post-secondary institution in skill areas called trades. The *Apprenticeship and Industry Training Act* provides the legislative authority for the administration of the system.

The annual base operations grants provided to public post-secondary institutions include an allocation for the formal instruction component of apprenticeship programs. Alberta Learning has worked with each apprenticeship training provider to establish, based on an annual grant, an overall training capacity or apprenticeship training commitment level at each institution. Commitment levels are also established for each trade in each of the training providers. This commitment level represents the number of seats in a specific trade that could be offered by that institution. The commitment level for each institution is reviewed and adjusted, if deemed necessary, about every five years. Requests in excess of the trade commitment levels are funded on a competitive basis through the Access Fund.

To encourage people to enter apprenticeship programs and to recognize the role of employers in apprenticeship training, apprentices are excluded from the government's Tuition Fee Policy. Prior to 1997, apprentices did not pay tuition fees. Institutions received a grant in lieu of tuition, in addition to the base operations grant. In 1997, apprentices began paying tuition fees while attending formal instruction and the grant in lieu of tuition was discontinued. Tuition fees began at a rate of $25.00 per week and were increased over a three-year period to $50.00 per week of formal instruction. The current rate remains in effect until July 2003.

Private University Colleges

Current methods and levels of funding the private university colleges were developed in 1989 in a document entitled "Policy for Funding of Private Colleges." This policy applied only to the four accredited private university colleges that were being funded at the time.

The policy established that operating funding would be provided only for arts and science degree programs and university-level transfer programs. The plan was for the four private university colleges to reach a base operations grant level of approximately 75% of the implicit average grant for arts and science programs in the public universities. This was to be reached over a six-year period beginning in the 1989-90 fiscal year. Private university colleges have always been responsible for financing their capital costs since the assets are privately owned.

In 1994-95 the private colleges reached 71% of their general base operations grant level. Funding was frozen until 1998-99 when a final adjustment brought the base operations grant from 71% to 75%. This fulfilled the government's 1989 funding commitment to the private university colleges.

Other Private Providers

Alberta has numerous private colleges and institutions that do not receive operating grants from the government, but play a role in post-secondary education in the province.

Private colleges offer unique post-secondary programs such as theological studies and native studies. Some of these colleges are affiliated with other post-secondary institutions in Alberta, colleges in the United States, and Canadian or American Bible College/Theological schools or associations. These colleges are incorporated in Alberta under the *Societies Act*, the *Religious Societies' Land Act*, the *Business Corporations Act*, or the *Companies Act*.

There are also 130 private institutions in Alberta offering programs licensed under the *Private Vocational Schools Act*. Licensed programs offered by these institutions respond to current labour market demand. The programs prepare students for employment in a wide variety of occupations.

Students enrolled in accredited programs in private colleges and licensed programs in private vocational schools are eligible for assistance through the government's student finance programs.

What We Heard

The committee consulted with post-secondary institutions, provincial faculty, student associations, government departments, and other stakeholders in order to obtain information and advice on Alberta's post-secondary funding framework. Consultations took place over a four-month period beginning in May 2000, and consisted of written submissions, presentations, and a round table discussion. Several main themes emerged throughout the course of the consultation process. These are described below.

Key Themes

Equity: Currently, the base operations grant is allocated on an historical basis. Many stakeholders expressed concern with the equity of this approach. That is, they were concerned that current allocations did not fairly recognize the variable costs associated with institutional mandates, programs, sizes, and locations. This concern was sometimes tempered by the observation that while the base may be more equitable than it appears, it was difficult to substantiate.

In general, a number of stakeholders felt the present mechanism does not promote equity since enrolment increases outside of the Access Fund are not funded, while others indicated that the funding mechanism did not reflect economies of scale, distributed delivery, rural costs, and program mix. For example, the larger institutions are able to provide larger class sizes, especially for undergraduate programs and, therefore, can obtain significant economies of scale.

A number of responses indicated that equity does not exist owing to the varying ability of institutions to access alternative revenue sources, including tuition fees and private sector contributions. Generally, institutions in urban centres have access to larger populations of students and businesses. As a result, they have a greater capacity to generate revenue from tuition fees and contractual arrangements with the private sector.

At the round table, equity of funding continued to be a key point of discussion among participants. Several participants suggested that equity adjustments should be made to promote a stronger system. It was also recommended that equity remain a key principle of the funding mechanism.

Differentiation: The committee heard that the funding mechanism needed to reflect the diversity within the adult learning system, but that it also must reflect principles and goals common to all partners in the system.

Institutions vary considerably in terms of their size, program mandate and geography. As noted in the section above, these factors affect an institution's delivery costs and ability to generate alternative sources of revenue. For instance, supplies and services generally cost more in the northern regions of the province.

The discussion of differentiation manifested itself in a variety of ways. Some suggested funding certain sectors differently than the rest of the system. It was also suggested that institution-specific performance measures could be used in the Performance Envelope.

Complexity/Simplicity: An issue closely related to differentiation is the complexity of the funding model and the concurrent reporting requirements. A number of stakeholders pointed out that several government departments are now involved in the funding of post-secondary education. They maintained that the multiplication of funding sources and programs, each with separate procedures regarding application, monitoring and reporting, has increased pressure on the administrative workload of institutions. Some stakeholders indicated that these changes have had a particularly strong impact on the smaller institutions.

While some stakeholders suggested that reporting processes be simplified or that consideration be given to elimination of some of the envelopes, feedback at the round table discussion indicated that complexity was not an overriding concern. Additionally, there were no strong recommendations emerging regarding envelope simplification or elimination.

Stability/Predictability: A number of stakeholders suggested that funding decisions need to be made on a longer-term planning horizon. They suggested that as the government has moved toward providing a greater proportion of funding through envelopes rather than base grants, funding has become less predictable. Several responses also noted that the involvement of several government departments in funding decisions has added to both the complexity and lack of predictability.

Funding Collaboration: Some stakeholders stated that the existing funding mechanism unduly emphasizes competition over collaboration. They suggested that measures should be introduced in the Performance Envelope to recognize and reward collaboration. It was also suggested that collaborative initiatives should be directly rewarded. At the same time, others pointed out that collaboration is something that can be promoted through guiding principles, but cannot be easily or precisely measured.

Institutional Flexibility: Many stakeholders pointed out that the government has added more targeted funding envelopes that provide only marginal funding to support new initiatives. Institutions are often required to contribute to the costs of an initiative. For example, the Science Awareness and Promotion stream of ISRIP provides support up to a maximum of 75% of project costs. Stakeholders suggested that this requirement has reduced institutional flexibility since it encumbers base operating grants.

Funding Sensitivity: Many stakeholders agreed that the base grants mechanism needs to be more responsive to enrolment shifts. There was no consensus as to the mechanism that would be most sensitive to enrolment changes and at the same time promote system collaboration, system success, and adhere to the guiding principles.

Over the course of the consultation, a number of funding model options and proposals were made to the committee. While some stakeholders made a case for formula-based, enrolment-weighted funding, others made an equally compelling case for less formula-driven alternatives.

Some participants supported a hybrid model in which the institution is assured funding for fixed costs and a smaller portion of funding is allocated on the basis of enrolment. This would protect institutions from short-term fluctuations.

At the round table discussion, participants were asked to comment on and provide recommendations on a new funding mechanism. A series of options were presented to participants and they were asked to assess the extent to which the options adhered to core principles. Most participants did not support a purely enrolment-weighted base grant mechanism. They were concerned that such a mechanism would be complex to administer and could potentially serve as a redistribution mechanism that is not easily understood.

Access Fund: Generally, stakeholders supported the Access Fund as well as the program classification that is used. However, there was some concern that the fund does not support general enrolment increases. Additionally, several stakeholders suggested that the fund is not responsive to local priorities and must retain sufficient flexibility to respond to local demand and local business and economic conditions.

Performance Envelope: Most stakeholders supported the existing Performance Envelope, however, it was suggested that there should be a greater degree of differentiation to reflect unique circumstances, program mix, or mandate. A number of institutions suggested that they should be able to determine some of the performance measures upon which they are evaluated.

Several respondents commented that apart from tuition fee revenues, the only source of new unrestricted funding available was through the Performance Envelope. They recommended that funding to accommodate general cost pressures should be separate from performance funding.

A number of respondents suggested that for the Performance Envelope to be meaningful, the level of funding should not be fixed or based on a predetermined pool of resources. It was suggested that the pool of funding should be based on achievement of specific benchmarks to ensure that the system is successfully meeting its goals.

Research Funding: Stakeholders had two major concerns with regard to research funding. First, universities were concerned that they are not funded for the indirect costs of sponsored research, which means they are depleting their operating funds to support research. Second, non-universities were concerned that they do not receive funding for general professional research.

Tuition Fee Policy: Throughout the consultation, many stakeholders voiced concern with the tuition fee policy. It was suggested that continued increases in tuition fees will ultimately affect accessibility. At the same time, it was acknowledged that tuition fee increases are a key means by which institutions can generate revenue to cover increased program costs.

Additional Issues

Several other issues were raised during the consultation process. Some of these, particularly adequacy of funding, were beyond the mandate of the committee. Other issues included funding for capital, apprenticeship training, and private university colleges.

Adequacy: Most stakeholders emphasized that total system funding has not kept pace with general cost and enrolment increases. They pointed out that the Access Fund only provides funding for enrolment growth in targeted programs, and initially did not provide for the full cost of these programs. Similarly, they noted that the Performance Envelope does not fully meet general cost pressures.

Capital Funding: Stakeholders were concerned that capital funding is not sufficient to support the maintenance of existing facilities, the deferred maintenance backlog which has accumulated, or expansion to meet enrolment growth.

The university sector was also concerned that capital funding is not generally available to support research infrastructure. As well, a few responses mentioned that the current approach to capital funding did not reflect the needs of new teaching methods and advancements in learning and laboratory technologies.

Apprenticeship Training: Some stakeholders suggested that a different model of funding apprenticeship programs should be considered. It was pointed out that the government's regulation of apprenticeship capacity and tuition fee levels, coupled with high equipment and infrastructure costs, does not allow institutions to achieve or maximize economies.

Private University Colleges: The Private University Colleges suggested that as the result of considerable enrolment growth in the 1990s, they are not funded comparably to public institutions. Additionally, they were concerned that they do not receive support for capital or infrastructure.

Committee Recommendations

Guiding Principles

In preparing its recommendations, the committee was guided by a set of core principles that were developed in consultation with stakeholders at the round table discussion. One of the central purposes of holding the round table was to obtain stakeholder input on what core principles a post-secondary funding framework should reflect. The eight principles underlying the current funding mechanism were used as a starting point in the discussion. These principles are contained in Appendix 3.

Generally, stakeholders supported the existing principles, but suggested combining those with overlapping content. It was also proposed that adequacy be included. Finally, it was recommended that there should be a close link between the funding framework and the system vision and department business plan.

Following the round table discussion, the committee considered the suggestions put forward by stakeholders. It was agreed that there should be a close link between the funding framework and the system vision and department business plan. A funding framework that is closely aligned with a vision and business plan is a key means of channelling resources toward current and emerging demands. Additionally, it was agreed that the overlapping principles should be combined. However, given that adequacy is a very subjective concept and that the government works with a finite pool of resources that is dependent upon economic and other factors, the committee did not accept adequacy as a core principle.

The committee concluded that in addition to supporting the system-wide goals of accessibility, responsiveness, affordability and accountability, Alberta's post-secondary funding framework should reflect the following six principles:

Quality: Excellence is encouraged, and outcomes and results that are effective in meeting the needs of learners are supported.

Equity: Funds are allocated in a fair manner, reflecting differentiation among institutions, their missions, mandates, programs, sizes and locations. The measures and data used in determining funding are employed in a fair, consistent and comparable manner throughout the post-secondary system.

Practicality: The mechanism is understandable to stakeholders and other Albertans. Technical complexity is avoided and administration costs are low.

Innovation/Adaptability: The mechanism allows for institutions to adapt to changing circumstances and is effective in periods of funding stability, growth or reduction.

Stability: Large fluctuations in funding are moderated to ensure that the system continues to be able to meet learner needs. Funding encourages planning that is consistent with system goals and business plans.

Productivity: Incentives for the achievement of policy objectives, desired outcomes and improvements in performance are supported and provided.

A Renewed Funding Framework

Alberta's post-secondary institutions vary widely in terms of mandate, programs, size, and location. The committee heard that the existing funding framework does not adequately reflect these differences and is not sufficiently sensitive to changing circumstances.

The challenge facing the committee was to conceive a framework that could achieve greater equity, adapt to a changing environment, recognize institutional differences and, at the same time, continue to support system-wide goals and the funding framework principles.

The committee concluded that this challenge could best be met by retaining and modifying the existing base grant mechanism and envelopes. At the round table discussion, most stakeholders reached the same conclusion. The committee considered other potential frameworks, such as separate models for each of the post-secondary sectors and a weighted enrolment-based operations grant. However, these were rejected because stakeholders were concerned these models could lead to fragmentation of the system, the marginalization of certain sectors, unstable funding for core operations, and greater complexity.

Following are the committee's specific recommendations along with rationales and some strategic direction for implementing a renewed funding framework.

Recommendation 1 — Equity Adjustments to Base Grants

Base operations grants should be adjusted to achieve greater equity across the system.

- First priority on new funding to the system should be to address variations in per student grants and expenditures between similar institutions and programs, as well as enrolment growth in credit programs that has not been directly funded by government or third parties.
- Unfunded enrolment growth in arts and science degree programs and university-level transfer programs at the four publicly-funded private university colleges also should be funded at 75% of the per FLE amount provided to public universities.

Throughout the consultation process, the committee heard that the funding framework was not sufficiently responsive to changing needs and circumstances. A primary concern of stakeholders was that although enrolment growth had been highly variable throughout the system, base operations grants had not been adjusted to reflect these shifts. The committee's review supported this claim. A comparison of operating grants and program costs per student between similar institutions showed some substantial variations that could not be fully explained by size, geography, or other factors. Additionally, it was found that a number of institutions had experienced enrolment increases for which they had not been funded.

To achieve greater equity, the committee concluded that adjustments to the base grants should be made taking into account the factors considered. In keeping with what stakeholders indicated at the round table discussion, the committee believes that equity adjustments are preferable to establishing a complex mechanism that would be difficult to understand and administer. The adjustments would promote

both equity and practicality, which are two of the core principles underlying the funding framework. Given its mandate that no institutions should lose existing resources, the committee proposes making adjustments only to the base operations grants of institutions that receive less than an equitable share of funding.

The committee's approach to the issue and conclusions are described in greater detail below.

Approach: As a starting point in its consideration of equity, the committee referred to the Alberta post-secondary operations grant study conducted by J. Stefan Dupre in 1987. This study provided a working definition of what would constitute an equitable condition among post-secondary institutions. Dupre concluded that:

> *An equitable condition among institutions can be deemed to exist when those in similar situations are treated similarly and those in different situations are treated in a manner that is commensurate with their differences.*

From the outset, the committee acknowledged that its approach would provide a general rather than definitive indicator of equity within the system. Institutions are complex organizations and each operates with an entirely different set of capacities and constraints. Additionally, institutions are autonomous entities that have considerable latitude in management decisions regarding expenditures, expansion, enrolment intake, revenue generation, and so forth. The committee recognized that it would be impractical to design a model of analysis that could control or account for each and every one of these differences. It was agreed that a more detailed examination of system equity would not likely result in better information.

As an alternative to a detailed model, the committee looked to develop general indicators to assess funding equity. The committee considered three primary indicators: enrolment growth, government grants per student, and program expenditure per student. Program mix, economies of scale, and geography were also taken into consideration.

For example, each program within the system has an average cost per full-load equivalent (FLE) student. One FLE represents one student for a standard year of study taking what is considered to be a full load in a specific program. There is also an average cost across all programs. The average cost for each program can then be expressed relative to the average system cost. For instance, if the average cost per FLE within the non-university sector is $8,600 and the average cost of agriculture programs is $13,900, then agriculture programs would have an index of 1.62 ($13,900/$8,600 = 1.62) relative to the average cost in the non-university sector, which is expressed as having an index of 1.0.

In general then, agricultural programs would tend to have an average per student cost that is 62% higher than the average per student cost within the sector. Similarly, if education programs had an index of 1.07, their average cost would be about 7% higher. Therefore, in an institution that only offers agriculture programs, the average cost per student would be expected to be 62% higher than the average for the sector. Similarly, in an institution that offers only education programs, the

average cost per student would be expected to be 7% higher than the average for the sector assuming all other factors, such as institution size or geography, are constant. To ensure comparability, adjustments would also have to be made for these factors.

A more detailed description of the committee's approach is contained in Appendix 4.

Enrolment Growth: In reviewing enrolment growth, the committee considered the concept of unfunded enrolment growth since 1994-1995. The 1994-1995 base year was chosen for three reasons. First, the existing funding mechanism was implemented in 1994-1995 and grant rate reductions were introduced. Until 1991-1992, the Supplementary Enrolment Fund provided marginal funding to recognize enrolment increases. The Dupre study was completed in 1988-1989 and in response, for the next four years adjustments were made to the base operating grants of a number of institutions. As a result of these adjustments, equity was deemed to exist within the Alberta system. Second, since 1994-1995, most system enrolment growth has been targeted through Access Fund expansion. Third, 1994-1995 is the first year in which comparable enrolment information is available using the current FLE methodology.

Enrolment growth is one of the key factors affecting funding equity within the system. As shown in Appendix 5, while general enrolment increases in some institutions have surpassed 25%, decreases in other institutions have been as significant. Consequently, the committee found that there were some inequities in the base funding. A significant cause is enrolment increases outside the Access Fund. It was agreed that general system competitiveness would be enhanced if the funding of unfunded enrolment were given a high priority.

To promote equity on a system-wide basis, the committee suggests funding to the four publicly-funded private university colleges also be adjusted to recognize unfunded enrolment growth. Although, as discussed previously, the government has fulfilled its 1989 commitment for funding to the four private university colleges, the committee recognizes that these institutions have also experienced changes in enrolment. To be consistent with the "Policy for Funding of Private Colleges," unfunded enrolment growth at the four private university colleges should be funded at 75% of the per FLE amount provided to public universities.

Government grants per student: In considering government grants per student, the committee took into account various factors. For example, it was recognized that although the grant per student may be substantially different between two institutions at a point in time, the difference may be warranted given the program mix. Additionally, it was important to view the change in the operating grant per student over time to consider whether funding has been sensitive to enrolment changes. A more detailed description of the committee's approach is contained in Appendix 4.

It was clear from the factors considered that some significant changes have occurred since 1994-1995. Significant productivity gains have been made across the system. However, while the average operations grant per student was reduced by 8% for the system, in some institutions this reduction has been substantially higher. The committee concluded that inequitable conditions do exist as the result of these changes in the level of grant funding per student.

Ongoing government grants to post-secondary institutions are provided in Appendix 6.

Program expenditures per student: Program expenditures per student were reviewed on a program by program basis across the system. As in the comparison of grants per student, program expenditures were reviewed taking into account the economies of scale and program mix of the institution.

Again, it was clear from the factors considered that there are some significant differences in program expenditures per student that cannot be fully explained by size, geography or other factors. The committee concluded that inequitable conditions do exist as the result of variances in the level of program expenditures per student.

Recommendation 2 — Regular Review of Base Grants

A process should be established to provide for the periodic review of base operations grants.

- A review should be conducted approximately every five years.

As explained under Recommendation 1, the committee found that the current funding framework was not sufficiently responsive to changing needs and circumstances. Although collectively the recommendations in this report are intended to enhance the framework's sensitivity to enrolment, institutional differences, and other factors, the committee also recommends that a process for the periodic review of base operations grants be established. Such a review would ensure that the principles of equity, adaptability, and stability continue to be reflected in the post-secondary funding framework. To ensure that changes within the system represent trends rather than anomalies, it is suggested that the reviews take place about every five years.

Recommendation 3 — Cost Adjustments to Base Grants

General cost pressures should be considered in annual adjustments to the base operations grant.

- A distinct mechanism should be established to help fund general cost pressures, with the amounts determined during the government's annual budget and business planning process.

Through their participation in the government's financial restructuring program of the 1990s, Alberta's post-secondary institutions have contributed to the sound fiscal management that has helped create one of the strongest and most dynamic provinces in Canada. As the result of this restructuring, Alberta's system of post-secondary education has become more efficient, more effective, and more entrepreneurial.

To continue to improve the quality of the post-secondary system, the committee agreed that a separate mechanism is required to fund general cost pressures. As discussed earlier, the current funding framework does not explicitly fund general cost pressures. Institutions must rely upon external revenue including tuition and other fees, together with funding from the Performance Envelope and the Access Fund, to accommodate incremental cost pressures. However, these sources of revenue, particularly the envelope funds, were intended to achieve other purposes. Their use as a buffer against incremental cost pressures detracts from their effectiveness.

The committee believes that transparency would be enhanced if government were to establish a distinct mechanism in the base operations grant to compensate for general cost pressures, with the amounts determined during the government's annual budget and business planning process. The use of such a mechanism would help to preserve the functional integrity of other elements of the funding framework. As well, planning for long-term improvement would be enhanced. In a more predictable funding environment, institutions can adopt more innovative and creative approaches when responding to the needs of learners and other stakeholders because they will be more able to manage associated risks.

Recommendation 4 — Faculty Attraction and Retention

A working group should be established to examine and make recommendations on improving the ability of Alberta's post-secondary institutions to attract and retain faculty.

- To remain competitive the post-secondary system should have top-quality faculty, outstanding graduate students, and talented researchers.

Currently, Alberta is an active competitor in the global economy, and its ability to maintain its advantage in this arena hinges on a highly-skilled workforce, as well as the creation and application of new knowledge and technologies. As a central provider of learning and research, Alberta's post-secondary system plays a critical role in the province's well being. To continue to fulfill this role, the system must remain competitive—it must possess the features that give rise to success, such as top-quality faculty, outstanding graduate students, and talented researchers.

Post-secondary institutions in Canada currently are facing an exciting opportunity for renewal. Institutions will need to fill numerous faculty positions over the next decade to cope with the expected retirement of large numbers of faculty, expected enrolment increases driven by the effects of the "echo boom," and expected increases in participation rates. Alberta's institutions need to be well-positioned in this regard. A comparison of other jurisdictions shows that faculty salaries at Alberta institutions are low relative to peer Canadian and U.S. institutions and industry. For

1998-1999, salaries at the Universities of Alberta and Calgary were ranked 8th and 14th respectively out of 16 peer Canadian universities. Throughout the consultation process, stakeholders have suggested that this low standing has affected the system's ability to attract and retain top-quality people. The committee proposes that a working group be established to examine and make recommendations on improving the ability of Alberta's post-secondary institutions to attract and retain faculty.

Recommendation 5 — Access Fund

The Access Fund should be modified to fund general as well as targeted enrolment increases.

- The allocation of funding for both general and targeted enrolment increases should be tied to institutional accessibility plans that reflect provincial and local market needs.
- Consideration should be given to establishing a mechanism for responding to immediate local needs.
- Accountability for enrolment increases and decreases should be strengthened.

Accessibility planning: Planning and monitoring are key means of channelling resources toward current and emerging demands, and presently are central elements of the Access Fund. The department develops province-wide accessibility plans that identify priority subject areas and provide the framework for responding to short- and long-term enrolment growth. Access funds are allocated on the basis of these accessibility plans. Institutions submit their own accessibility plans, as well as specific program proposals, indicating how they will expand access in subject areas that respond to either provincial or local market needs and demands. Access Fund programs are monitored for periods of three to five years, and funding does not become part of base operations grants until enrolments have stabilized. Accountability and responsiveness would be promoted if funding allocations for general enrolment increases followed established Access Fund processes. A mechanism should also be established to "fast-track" the approval of programs that respond to immediate local needs.

General enrolment increases: General enrolment increases refer to enrolment growth in programs outside of those approved through the Access Fund. Presently, general enrolment increases are not directly funded. Since enhancing accessibility is a fundamental goal of the post-secondary education system, the committee suggests that general enrolment increases should be funded. However, the per student rate of funding for general enrolment increases should be less than that for targeted enrolment increases to ensure that provincial market needs are given the highest priority. The committee suggests using the former Supplementary Enrolment Fund described earlier in this report as a model for funding general enrolment increases. To maintain accountability, the general enrolment funding mechanism should adjust for decreases as well as increases in enrolments.

Accountability: One of the primary goals of the government is to enhance accessibility through the creation of new spaces and increases in total enrolment within the system. The Access Fund is one of the key mechanisms by which this can be achieved.

However, under the current funding framework, institutions can establish Access-funded programs without expanding overall enrolment by reducing spaces in existing programs. Although institutions are penalized for static levels of enrolment through the Performance Envelope, they may benefit overall because the level of Access funding received can be greater than the level of performance funding withheld. Accountability would be enhanced if a mechanism were established to recognize overall enrolments commensurate with the creation of Access-funded spaces, and to recognize enrolment decreases as well as increases.

Recommendation 6 — Performance Envelope

Allocations from the Performance Envelope should be based strictly on the achievement of excellence and improvements in performance.

- Provided that a mechanism exists within the base operations grant to fund, enrolment changes and general cost pressures, annual performance awards should be allocated as one-time funding.
- The introduction of mandate-specific indicators, external benchmarks, and third-party performance assessment should also be considered.

Focus on performance: The purpose of performance funding is to encourage and reward excellence as well as improvements in performance that support the achievement of system-wide goals. The committee agreed that performance recognition was a valuable concept that should continue to be reflected in the post-secondary funding framework. However, the committee concluded that the Performance Envelope as currently structured does not sufficiently recognize and promote excellence and improvements in performance. Presently, more than half of the performance fund allocation is distributed in an undifferentiated manner to all institutions in recognition of general system improvement and is automatically added to the base operations grant the following fiscal year. This across-the-board award acts more as an adjustment intended to help offset general cost pressures than an award for performance.

To become a more effective instrument of performance improvement, the committee suggests that funding from the Performance Envelope be allocated strictly on the basis of achievement of excellence and improvements in performance. Further, it is proposed that performance awards be allocated based on achieved benchmarks and as one-time funding. The committee acknowledges that this latter recommendation is contingent upon the recognition of general cost and volume pressures elsewhere in the funding framework.

Mandate-specific indicators: The committee recommends introducing mandate-specific indicators. Protecting the diversity of Alberta's post-secondary institutions is an important goal of the funding framework. By allowing individual institutions to negotiate some specific performance measures relating to their particular mandate and circumstances, government can recognize their unique needs and foster local support for performance-oriented management.

External benchmarking and assessment: The committee believes that benchmarking should involve both an internal and external focus. Comparison against others and comparison relative to a standard of excellence are as important as comparison against self. To ensure that the Performance Envelope continues to promote system-wide success as well as institutional performance, the committee recommends establishing external benchmarks and third-party assessment. It is suggested that a small, expert team of external examiners be established to assess post-secondary performance in Alberta relative to standards outside the province.

Recommendation 7 — Research Funding

The indirect costs of research should be funded.

- Alberta should ensure that provincially-sponsored research is fully funded, including both direct and indirect costs.
- Additionally, the province should work with the federal government to obtain funding for the indirect costs of federally-sponsored research.

Indirect costs of research refer to costs that cannot be attributed directly to a specific project, but are required for the conduct of research. These include administration of research budgets, use of other administrative and professional services, equipment depreciation and maintenance costs, buildings and land, libraries and computer services, and so forth. Sponsored research, supported by either grants or contracts, incurs such costs.

Total sponsored research funding at Alberta's post-secondary institutions grew from $143.8 million in 1991-1992 to $230.9 million in 1998-1999, with the federal granting councils providing the main source of support. This growth in the magnitude of sponsored research has put pressure on the operating budgets of institutions, since there are currently no federal or provincial mechanisms in place to compensate for the indirect costs of research.

With the introduction of additional major provincial and federal research initiatives — such as the Alberta Heritage Foundation for Science and Research Engineering, the extension of the Canada Foundation for Innovation initiative to 2005, Canadian Institutes for Health Research, and the Canada Research Chairs program — research dollars flowing into Alberta will continue to increase.

The committee believes that funding the indirect costs of research would enhance the ability of Alberta's institutions to take advantage of new opportunities for increased research funding. The committee recommends that the province establish a mechanism for funding the indirect costs of provincially-sponsored research, and work with the federal government to obtain funding for the indirect costs of federally-sponsored research.

Recommendation 8 — Government Processes

Funding processes among government departments should be co-ordinated and simplified where possible.

- Responsibility for system-wide planning and co-ordination in specific areas should be clarified, and avenues of communication with institutions should be streamlined.

The committee proposes that the funding processes among government departments be co-ordinated and simplified where possible. The committee found that the funding of post-secondary education has become structurally and technically complex. Many ministries are now involved in post-secondary funding decisions. Stakeholders have suggested that it is not clear who is responsible for system-wide planning, co-ordination, and communication in specific areas. Additionally, the multiplication of funding sources and programs, each with separate procedures regarding application, monitoring and reporting, has placed pressure on the administrative workload of institutions. For example, the former Alberta Vocational Colleges rely on direct funding from Alberta Learning and Infrastructure, competitive funding from Alberta Human Resources and Employment and several federal ministries, as well as indirect funding from Alberta Justice and Health and Wellness.

In making this recommendation, the committee acknowledges that a certain level of regulation is required if system-wide goals are to be met, and accountability to students and taxpayers is to be maintained.

Recommendation 9 — Tuition Fee Policy

The tuition fee policy should be revised to ensure that it continues to support the goals of the post-secondary system.

- Revisions should support the goals of affordability and accessibility, and consider the needs of institutions as well as students.
- Revisions also should be made within the context of the government's general accessibility strategy and be integrated with student finance programs.

As previously described, the amended Tuition Fee Policy allowed revenue from tuition fees at public institutions to rise to 30% of net operating expenditures by the year 2000. Tuition fee increases currently contribute about 2.5% annually to total system revenue and are one of the major sources of revenue available to institutions to accommodate general cost pressures. However, many institutions are now approaching the 30% ceiling and will require an alternative revenue stream if the Tuition Fee Policy is not revised.

Any revisions to the Tuition Fee Policy will also need to consider that the objective of the policy is to ensure that students make a contribution to the cost of their post-secondary education that is reasonable considering the benefits they receive. In general, this objective has been met. However, tuition fee revenue as a proportion of net operating expenditures varies between institutions. Alberta now has one of the

highest average tuition fees in Canada. A survey of other provinces indicates that most are considering imposing further restrictions on their rates of tuition fee increases. It is important to point out that if tuition fee increases in Alberta are further restricted, institutions will require an alternative revenue stream.

Finally, the committee notes that accessibility to the post-secondary education system is influenced by a variety of factors, including the level of tuition fees and the availability of student financial assistance. Any changes to the Tuition Fee Policy should be consistent with the government's general accessibility strategy and be reflected in the design of its student loan, grant, and remission programs.

Recommendation 10 — Apprenticeship and Industry Training

Concerns with the approach toward funding Apprenticeship and Industry Training should be further investigated.

- The current method of funding apprenticeship programs should be reviewed through a focussed discussion with institutions providing apprenticeship training.

Some stakeholders suggested that a different model of funding apprenticeship programs should be considered. It was pointed out that the government's regulation of apprenticeship capacity and tuition fee levels, coupled with high equipment and infrastructure costs, does not allow institutions to achieve or maximize economies.

The committee recognizes that Apprenticeship and Industry Training is regulated in a substantially different manner than the rest of Alberta's post-secondary system, however, it is not certain that any changes to the regulations are warranted. Current policies are the result of the need to encourage new people to enter apprenticeship programs in Alberta. The demand for qualified people to work in designated trades and occupations is expected to continue to grow because trades are an integral part of the expanding Alberta economy. Additionally, stakeholder concerns with apprenticeship policies were not widespread and did not emerge at the round table discussion. Consequently, the committee suggests all post-secondary providers of apprenticeship training be consulted to determine if concerns regarding the government's approach are warranted.

Concluding Comments

The committee believes that its recommendations collectively will lead to a better framework for funding post-secondary education in Alberta. The proposals would enhance the framework's sensitivity to the diversity and dynamics of the post-secondary environment, as well as continue to support system-wide goals and the guiding principles. The proposals also would provide an opportunity for the province to increase its competitive advantage and maintain a prominent role in post-secondary education policy in Canada.

To conclude its work, the committee thanks the Minister of Learning, Dr. Lyle Oberg, for the opportunity to undertake this review and to consider a number of very important issues in the funding of post-secondary education.

We would also like to thank the many stakeholders who made submissions and presentations to the committee, and took the time to participate in the round table discussion. Your knowledge and advice have helped guide our work.

Finally, the committee thanks the staff in the Adult Learning Division of Alberta Learning who provided support to the committee.

Appendix 1
Letter Inviting Stakeholder Input

Legislature Office:
130 Legislature Building
10800 – 97 Avenue
Edmonton, Alberta T5K 2B6
Telephone: (780) 422-5381
Fax: (780) 422-5385

LEGISLATIVE ASSEMBLY
ALBERTA

Constituency Office:
Medicine Hat Constituency
620 – 3rd Street, S.E.
Medicine Hat, Alberta T1A 0H5
Telephone: (403) 527-5622
Fax: (403) 527-5112

Rob Renner, M.L.A.
Medicine Hat Constituency

May 1, 2000

Dear Stakeholder:

In keeping with Alberta Learning's commitment to support a learning system that is flexible, responsive and collaborative, the Minister announced that an MLA Committee would be established to review and make recommendations on a funding framework for Alberta's post-secondary system (see attached press release). This review is very much a forward looking endeavour. It is about developing a plan on how best to distribute our future investment in post-secondary learning opportunities for Albertans.

The Committee has now met to discuss and establish a process that we will follow. To help focus the consultations and arrive at credible and effective recommendations, the Committee envisages a consultation consisting of written responses, oral presentations by representatives of umbrella organizations or partnerships associated with post-secondary institutions and a workshop. Attached is an overview of the process, including the expected outcomes and general timelines. More specific dates and locations for the presentations and workshop will be developed over the next several weeks.

As the first step in this consultation and to begin gathering information, I invite you to submit a written brief to the Committee. To help focus your responses to this request, it is important to "set the context" and provide an overview of some of the emerging themes that have surfaced to date, including those concerns that have been identified as a result of other consultations related to funding. The following list of themes is by no means meant to be exhaustive.

The Themes

Results-Oriented — our funding model must promote a system that is globally competitive, but meets a host of system goals and objectives including access to quality learning opportunities, efficiency, responsiveness to learners' needs and the needs of a dynamic economy and labour market.

Equity — it is necessary to ensure that the distribution of funding is fair and equitable. Those in similar circumstances should be treated similarly and those in different circumstance should be treated in a manner commensurate with their differences.

Complexity — concerns have been expressed that the existing combination of base funding, performance funding, and targeted envelopes, may be too complex and not provide enough predictability.

Performance Measures — concerns have been expressed with some of the existing measures or the exclusion of other measures that drive funding. For example, the lack of measures required to evaluate and reward non-traditional forms of delivery and to reflect institution collaboration.

Research Funding — concerns have been expressed that the existing funding approach for universities does not adequately recognize the indirect costs associated with research.

Capital Funding — similar to the distribution of operations funds, there are a range of issues related to capital funding.

In considering these themes, and others you may wish to bring to the Committee's attention, we would appreciate your response to the following questions:

1. Generally, do you feel that the present distribution of existing resources among institutions is substantially equitable? If not, on what basis is the distribution not equitable? What steps might be taken to help restore and maintain a fair and equitable distribution?
2. Does the current approach to funding institutions, which consists of a general operations grant, targeted envelopes, and performance envelope, facilitate direction consistent with the promotion of a high quality learning system that is flexible, responsive, and collaborative?
3. In general, what strengths or weaknesses do you see with the existing funding approach? What improvements do you suggest with respect to the overall approach to the distribution of funding?
4. What strengths or weaknesses do you see with respect to each of the individual components of the funding approach? What improvements do you suggest with respect to the individual envelopes?

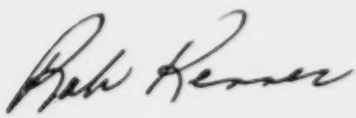
For those stakeholders not directly involved in delivery of post-secondary education, we invite your more general observations on issues related to funding.

Collaborative or joint submissions are both welcomed and encouraged. All submissions will be available to any interested party.

The Committee would appreciate receiving your written brief on or before Friday, June 9th. It should be forwarded to Rob Renner, Room 130 Legislature Building. If you have any questions on this request or the process in general, feel free to contact Steve MacDonald or Bruce McDonald at 427-5603 who will be providing support to the Committee.

On behalf of the Committee, I want to thank you for considering this request. This is a very important task we have been charged with and I very much look forward to working with you to help shape the future of Alberta's post-secondary system.

Sincerely,



Rob Renner, MLA
Medicine Hat
Chair, Funding Review Committee

cc: Honourable Lyle Oberg

Appendix 2
Consultation Questions

1. Differentiation

In general, the majority of institutions felt that there should be greater recognition of uniqueness or diversity within the system. This concern was evident in suggestions the Performance Envelope does not reflect mandate or institution-specific indicators. It was suggested some sectors or programs should be funded differently. For example, some institutions might have a research mandate, while others might have an apprenticeship mandate. Is it agreed that the existing funding mechanism needs to incorporate greater differentiation? How can this be done without adding more complexity to the funding mechanism?

2. Funding Sensitivity

Respondents suggested that enrolment might be a key factor contributing to inequity. The rural institutions felt that a funding model should reflect breadth of mandate, community service orientation, higher cost structure, sparsity of population, and reduced economies of scale. In contrast, the larger urban institutions felt that they were not adequately compensated for enrolment increases. It was suggested that the funding mechanism should reflect unique circumstances, and should be responsive to a dynamic environment. Has the current funding mechanism led to specific examples of inequity within the system? Does the current funding mechanism allow for the degree of sensitivity required to meet emerging demands? Should there be greater variability of funding according to performance? How should research funding be acknowledged?

3. Input versus Outcome Based Funding

A key concern expressed throughout the funding review consultations was that the current funding model does not fully recognize enrolment shifts, and that enrolment shifts are a key influence on equity within the system. Enrolment is a key input factor. Input-based models may reflect student/faculty ratios, line-item budgeting or enrolment. It was also noted that there are certain fixed input costs that are not related to enrolment. Is an input-based model preferred over an output or result-based model? Is an enrolment-based formula a preferable approach to funding? If so, what is the preferred model for enrolment-based funding? What would happen if there were to be a decrease in enrolment? Does an input-based model satisfy the principles of stability and predictability?

4. Tuition Fee Policy

A key component of institution funding is tuition fee revenue. Respondents expressed a number of concerns regarding the existing tuition fee policy. Many institutions are nearing the cap. In that institutions have variable capacity to utilize this revenue source, it can contribute to inequity. Further tuition increases may affect accessibility. A corresponding policy may be required regarding the appropriate level of government contribution to the cost of education. What suggestions are there for a tuition fee policy that appropriately balances system quality, affordability and accessibility? If the general operations grant mechanism is altered, how should the tuition fee policy change?

Appendix 3
Current Funding Framework Principles

Quality: it should encourage excellence and support outcomes and results that are effective in meeting the needs of learners.

Productivity: it should support and provide incentives for the achievement of policy objectives, desired outcomes, and improvements in performance.

Equity: it should allocate funds in a fair manner, taking into account the differences in institutions, such as their missions, mandates, programs, sizes, and locations.

Practicality: it should be understandable by stakeholders and other Albertans. Technical complexity should be avoided and the administration costs of the mechanism should be low.

Consistency: it should employ measures that can be used in a fair, consistent and comparable manner throughout the post-secondary system.

Adaptability: it should be able to meet changing circumstances and be effective in periods of funding stability, growth or reduction. There should be a process or provision for periodic review of the mechanism to ensure it applies to the environment of the times.

Stability: it should moderate large fluctuations in funding to ensure that the system continues to be able to meet learner needs.

Predictability: it should encourage planning that is consistent with system goals and the department's business plan. In addition, learners and institutions should be given sufficient lead time to deal with intended changes.

Appendix 4
Comparison of Institution Program Costs and Grant Funding

Methodology Overview

The committee used the following methodology as a guide in assessing the equity of funding within the system. It is important to note, however, that this is a tool to assess variances in funding and should not be construed as a definitive scientific model that translates automatically into absolute funding.

In order to assess equity, it is necessary to look at two measurements: grant per full-load-equivalent (FLE) and program cost per FLE. One FLE represents one student for a standard year of study taking what is considered to be a full load in a specific program. Also, to ensure comparability in the comparison of one institution to another, it is necessary to make a number of adjustments to reflect the following:

1. variable program cost;
2. program mix;
3. economies of scale;
4. multi-campus; and
5. population sparsity.

1. Variable Program Cost — Each program within the system has an average cost per student. There is also an average cost across all programs. The average cost for each program within the system is expressed relative to the average system cost.

For example, if the average cost per student within the non-university sector is $8,600 and the average cost of agriculture programs is $13,900, then agriculture programs would have an index of 1.62 ($13,900/$8,600 = 1.62) relative to the average cost in the non-university sector, which is expressed as having an index of 1.0. An education program may have an index of 1.07.

In general then, agricultural programs would tend to have an average per student cost that is 62% higher than the average per-student cost within the sector and education programs would have an average cost that is about 7% higher.

2. Program Mix — The second step toward comparability is adjusting for program mix.

In an institution that only offers agriculture programs, you would expect the expenditure per student to be 62% higher than the average for the sector. Similarly, in an institution that offers only education programs, you would expect the average cost per student to be 7% higher than the average for the sector (assumes all other factors, such as institution size or geography are constant).

For example, an institution that has 50% of its students enrolled in agriculture programs and 50% enrolled in education programs would have an Institution Index of 1.34:

(.5 * 1.62) + (.5 * 1.07) = 1.34

3. Economies — The economies of scale factor is a statistical representation of the degree to which average cost to deliver instructional credit programs varies by the size of the institution. The economies of scale adjustment factors below were derived based on Alberta experience. The average cost per FLE for each institution was developed using a logarithmic formula which relates program cost to institution size based on FLE enrolment.

The analysis shows that economies are achieved at 4,000 FLEs. In other words, larger sizes beyond 4,000 FLEs do not result in significantly greater efficiencies. However, for institutions with a volume of less than 1,000 students, the cost of doing business could be as high as 15% to 18%.

This experience is comparable to detailed costing in Ontario which also showed no economies beyond 4,000 students.

Table of Factors for Economy of Scale Adjustment
Alberta Post-secondary Institutions

Enrolment Interval (FLEs)	Economy of Scale Factor
Below 850	18%
850 – 1000	16%
1000 – 1250	14%
1250 – 1500	12%
1500 – 2000	9%
2000 – 2500	7%
2500 – 3000	5%
3000 – 3500	3%
3500 – 4000	2%

Therefore, based on the factors in the table above, one would expect costs per student that are about 18% higher in institutions with 800 FLEs in relation to an institution with 4,500 FLEs (all other factors constant).

Using the earlier example, if Institution A has half of its students in agriculture programs and the other half in education programs and has a total of 700 students, and a comparison is being made with an institution with 4,500 students and offering a wide range of programs that parallel the average for the sector (i.e. has an Institution Index of 1.0), then the Institution Index for Institution A would be as follows:

$[(.5 * 1.62) + (.5 * 1.07)] * 1.18 = 1.58$

Therefore, at this stage adjustments have been made for size differences, program mix and variable cost of programs. When Institution A is compared with the average program cost within the sector, you would expect there to be a 58% cost per student differential.

4. Multi-Campus — The Ontario system uses a 2.5% to 7.5% adjustment factor to reflect the added costs of doing business in a multi-campus environment. The Ontario system recognizes colleges that operate campuses more than 50 miles from the main campus. For colleges with 60% or more of their enrolment more than 50 miles from the main campus, the adjustment factor is 7.5%. For institutions with 15% to 30% of their enrolment more than 50 miles from the main campus, the adjustment factor is 2.5%.

5. Population Sparsity — Closely related to the concept of a multi-campus factor is population sparsity. In Ontario, this adjustment is applied to colleges located in a catchment area where population density is less than 240 persons per square mile. The rationale for this adjustment is that supplies and services (i.e. travel and communications) cost more in sparsely populated areas, such as northern regions. The actual adjustment factor is marginal except for the most sparsely populated areas. The adjustment factor is up to 20%.

Appendix 5
Full-Load Equivalent (FLE) Enrolment by Institution

1994-1995 to 1998-1999

Institution	1994-95	1995-96	1996-97	1997-98	1998-99
University of Alberta	24,338.00	24,861.10	25,568.50	25,283.70	26,108.70
University of Calgary	17,540.40	18,493.30	19,171.60	19,409.40	20,022.40
University of Lethbridge	4,092.10	4,193.50	4,428.20	4,565.50	4,768.50
Athabasca University	1,811.70	1,996.30	2,231.80	2,744.30	3,150.80
Sub-Total	47,782.20	49,544.20	51,400.10	52,002.90	54,050.40
Banff Centre	247.30	255.70	261.08	289.10	265.80
ACAD	676.10	716.90	757.30	741.80	758.20
Bow Valley College	3,982.30	3,834.30	3,450.00	2,936.20	2,940.10
Fairview	965.60	938.00	950.90	834.40	935.30
Grande Prairie	1,506.70	1,364.90	1,412.40	1,412.60	1,420.30
Grant MacEwan	5,777.80	6,168.60	6,391.70	6,800.50	7,248.80
Keyano	1,125.20	1,185.90	1,197.80	1,261.60	1,370.30
Lakeland	1,433.40	1,410.70	1,559.50	1,286.10	1,309.40
Lethbridge	3,695.30	3,563.20	3,701.70	3,761.10	3,731.30
Medicine Hat	1,921.60	1,912.00	2,012.50	2,043.00	2,166.40
Mount Royal	5,189.30	5,682.10	6,176.80	6,307.50	6,378.20
NorQuest College	5,838.00	5,798.90	4,639.80	3,481.60	3,451.10
Northern Lakes College	1,249.10	1,270.30	1,304.30	1,073.40	1,200.30
Olds	982.70	1,048.30	1,128.60	1,176.80	1,252.50
Portage College	892.20	838.10	900.40	923.40	1,144.40
Red Deer	3,848.40	3,784.60	3,682.70	3,450.20	3,508.90
Sub-Total	39,083.70	39,516.80	39,266.40	37,490.20	38,815.50
NAIT	8,665.60	9,014.80	9,264.90	9,423.10	10,044.80
SAIT	7,624.40	7,867.30	8,541.70	9,124.70	9,721.70
Sub-Total	16,290.00	16,882.10	17,806.60	18,547.80	19,766.50
Augustana University College	842.70	743.10	679.50	671.30	711.50
Canadian University College	327.50	303.30	275.80	281.50	317.50
Concordia University College	1,098.90	1,059.50	955.00	970.30	981.10
The King's University College	384.70	396.90	407.70	414.30	422.80
Sub-Total	2,653.80	2,502.80	2,318.00	2,337.40	2,432.90
Total	106,057.00	108,701.60	111,052.18	110,667.40	115,331.10

Data Source: FLE enrolments submitted by post-secondary institutions as of August 23, 2000.

One FLE represents one student for a standard year of study taking what is considered to be a full load in a specific program.

Appendix 6
Ongoing Grants to Post-secondary Institutions

1994-1995 to 1998-1999
(institutional fiscal year)

Institution	1994-95	1995-96	1996-97	1997-98	1998-99
University of Alberta	240,529,415	227,065,286	221,522,773	225,973,493	231,637,548
University of Calgary	151,828,376	146,090,162	143,693,270	147,360,067	151,149,844
University of Lethbridge	32,151,664	30,419,684	31,309,600	32,056,164	33,010,836
Athabasca University	15,810,705	14,726,156	13,603,795	13,797,615	14,045,684
Sub-Total	440,320,160	418,301,288	410,129,438	419,187,339	429,843,912
The Banff Centre	12,777,682	11,883,244	8,826,747	8,981,214	9,127,609
ACAD	6,067,674	5,698,461	5,525,078	5,558,436	5,714,286
Bow Valley College*	7,754,220	7,100,611	7,792,581	8,803,334	10,394,505
Fairview	11,034,165	10,261,773	10,141,594	10,692,618	10,995,411
Grande Prairie	13,929,482	13,116,574	12,679,167	13,326,819	13,400,030
Grant MacEwan	25,338,671	25,770,547	27,634,935	28,973,631	29,401,545
Keyano	15,675,843	14,923,671	14,735,122	15,308,494	15,585,494
Lakeland	14,927,445	13,937,133	13,771,530	14,353,097	16,276,615
Lethbridge	15,919,590	14,939,216	15,378,605	15,625,261	15,971,368
Medicine Hat	11,034,030	10,229,638	10,069,123	10,604,139	10,819,284
Mount Royal	28,996,324	28,033,646	27,614,784	29,009,218	29,641,221
NorQuest College*	10,187,600	9,387,695	9,183,881	10,754,300	12,324,995
Northern Lakes College	10,980,500	10,676,403	9,871,722	11,991,757	14,133,552
Olds	11,730,984	10,909,815	11,601,194	12,103,529	12,219,007
Portage College	7,006,222	6,431,404	6,240,148	7,540,672	10,284,179
Red Deer	18,624,316	17,323,888	17,091,046	17,540,947	18,131,372
Sub-Total	209,207,066	198,740,475	199,330,510	212,186,252	225,292,864
NAIT	68,566,504	64,300,929	64,994,073	65,761,574	67,375,022
SAIT	60,113,034	56,418,108	56,299,609	57,664,026	58,375,781
Sub-Total	128,679,538	120,719,037	121,293,682	123,425,600	125,750,803
Augustana University College	3,263,088	3,006,521	2,916,325	3,157,609	3,189,185
Canadian University College	795,434	825,732	895,960	911,640	920,755
Concordia University College	4,033,089	4,252,393	4,001,084	4,435,040	4,588,588
The King's University College	1,216,148	1,195,352	1,241,891	1,300,824	1,365,702
Sub-Total	9,307,759	9,279,998	9,055,260	9,805,113	10,064,230
Total	800,292,205	758,924,042	748,635,637	773,585,518	800,079,418

Data Source: Minister's grant letters to institutions. Data do not include one-time grant support provided to institutions.

*Prior to 1997-1998, many non-university institutions had access to specific one-time funding. This provided a substantial source of program revenue for Bow Valley and NorQuest Colleges, more so than other institutions.

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